



The Case for CAFTA

The Central American Free Trade Agreement is a comprehensive agreement between the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua that will tear down barriers to U.S. exports. There are at least four significant advantages to eliminating tariffs against U.S. goods in these countries.¹

Small Countries, BIG Markets: Central America and the Dominican Republic make up the second largest U.S. export market in Latin America, behind only Mexico. In fact the U.S. exports more than \$15 billion annually to the region, making it America's 10th-largest export market worldwide. That is a lot of transactions: people are sometimes surprised to learn that we trade more with Central America and the Dominican Republic than we trade with Australia, and more than we trade with Brazil. In fact CAFTA-DR is a larger U.S. export market than Russia, India, Indonesia combined.

The American Farm Bureau Federation estimates CAFTA could expand U.S. farm exports by \$1.5 billion a year. Manufacturers would also benefit, especially in sectors like information technology products, agricultural and construction equipment, paper products, pharmaceuticals, and medical and scientific equipment. The National Association of Manufacturers estimates an increase of \$1 billion in U.S. exports when CAFTA is implemented.

CAFTA Levels the Playing Field for U.S. Workers and Farmers: Many people do not realize that we already have free trade with Central America, but it's one-way free trade. Today, under unilateral trade preference programs started in the 1980s and expanded by President Clinton, nearly 80% of Central American products already enter the U.S. duty-free. It's interesting to note that some of CAFTA's most vocal critics supported opening our market on a one-way basis, but now raise concerns about a trade agreement that would give American workers an equal chance to compete.

Textiles: Uniting to Compete With China: Garment factories in Central America and the Dominican Republic are huge consumers of fabric and yarn from the United States: the region is the second-largest world market for U.S. textile fabrics and yarns. In fact, a t-shirt that is "Made in Honduras" has more than 60% U.S. content, from the cotton to the yarn to the fabric. But a t-shirt that is "Made in China" has less than 1% U.S. content.

Garments made in the region will be duty-free and quota-free under the CAFTA only if they use U.S. fabric and yarn, thereby supporting U.S. exports and jobs. But with the expiration of global quotas on textiles/apparel at the end of 2004, regional producers face a new competitive challenge from Asian imports, especially from China. CAFTA would provide regional garment-makers – and their U.S. suppliers of fabric and yarn – a critical advantage in competing with Asia.

¹ Source: Office of the U.S. Trade Representative.

But if CAFTA isn't approved, there is a real risk that Central American customers of our fabric and yarn will pick up and move to China... and take their order books with them.

Strengthening Freedom and Democracy: Perhaps the most compelling argument for CAFTA is that it will strengthen economic freedom and democracy in our neighborhood. In the 1980s, Central America was characterized by civil war, chaos, dictators, and Communist insurgencies. Today, Central America is a region of fragile democracies that need U.S. support. Elected leaders in the region are embracing freedom and economic reform, fighting corruption, strengthening the rule of law and battling crime, and supporting America in the war on terrorism.

But the anti-reform forces in the region have not gone away. In Central America, CAFTA is opposed by the Sandinista ex-dictator of Nicaragua, Daniel Ortega. The leftist FMLN in El Salvador, which formed the core of the armed leftist insurgency in that country in the 1980s, also opposes CAFTA. And Hugo Chavez and Fidel Castro have jointly called for a leftist "Bolivarian" alternative to CAFTA that would exclude the United States. CAFTA is a way for America to support freedom, democracy and economic reform in our own neighborhood. President Bush believes that America should stand with those in our Hemisphere – and the world – who stand for economic freedom.